



UNSCO Socio-Economic Report: Overview of the Palestinian Economy in Q2/2014

Economic activity

Real quarterly GDP in Q2/2014 was higher than in both Q1/2014 and Q2/2013. Year-on-year growth was registered only in the West Bank however, as the economy in the Gaza Strip contracted by 7.1%. In Q2/2014 the Gaza economy constituted only 24.4% of the overall economy, and the Strip's nominal GDP per capita was less than half the West Bank's.

Between Q2/2013 and Q2/2014 there was a significant expansion in real value added in the wholesale and retail trade sector in the West Bank (24.1%), followed by services (14.1%) and construction (12.3%). Decreases in real value added were registered in the mining, manufacturing, electricity and water sector (13.1%), as well as the information and communication sector, and transportation and storage.

During the same period, in the Gaza Strip the public administration and defense sector reported the largest expansion (13.3%), while significant contractions were registered in the construction sector (72.9%), and transportation and storage (47.6%).

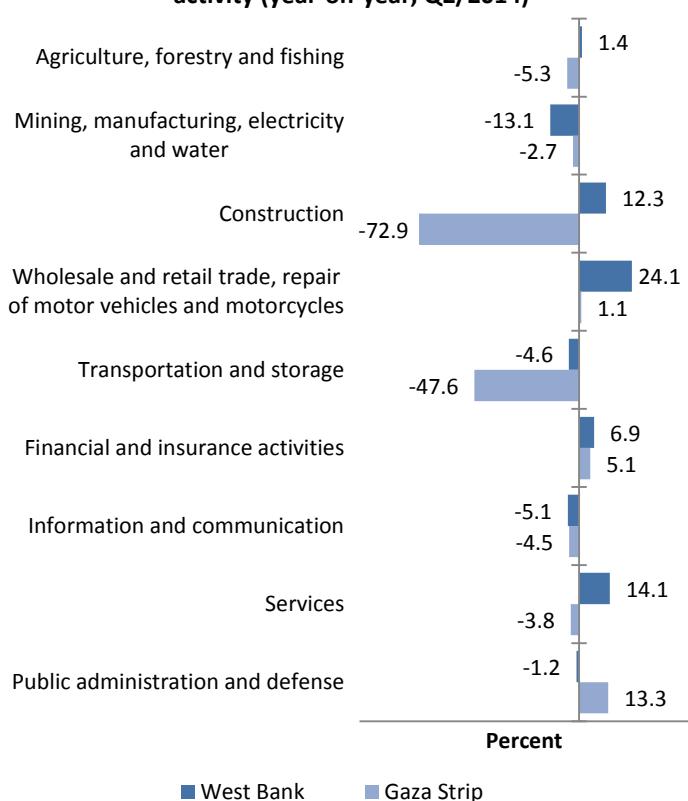
The wholesale and retail trade sector remained the largest in the West Bank economy in Q2/2014, accounting for

Key GDP indicators (Q2/2014)

	West Bank	Gaza Strip	oPt
Real GDP (million \$)	1,493.0	480.8	1,973.8
Rate of change in real GDP (quarter-on-quarter, %)	6.3	1.4	5.1
Rate of change in real GDP (year-on-year, %)	8.0	-7.1	3.9
Nominal GDP per capita (\$)	1,031.7	466.1	800.1

Note: Base year is 2004. Data for Q2/2014 are flash estimates.

Rate of change of real value added by economic activity (year-on-year, Q2/2014)



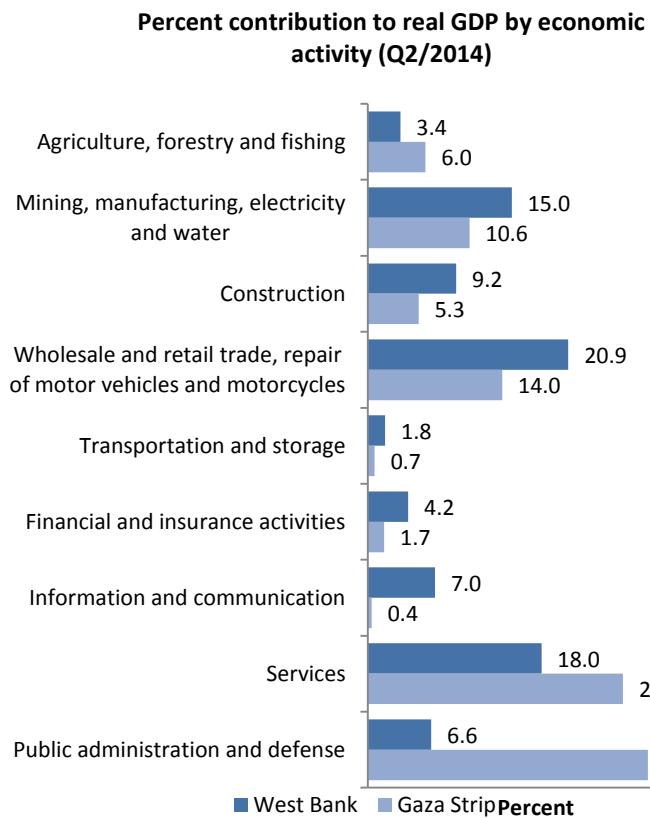
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20.9% of GDP. This sector was followed by services (18.0%) and mining, manufacturing, electricity and water (15.0%).

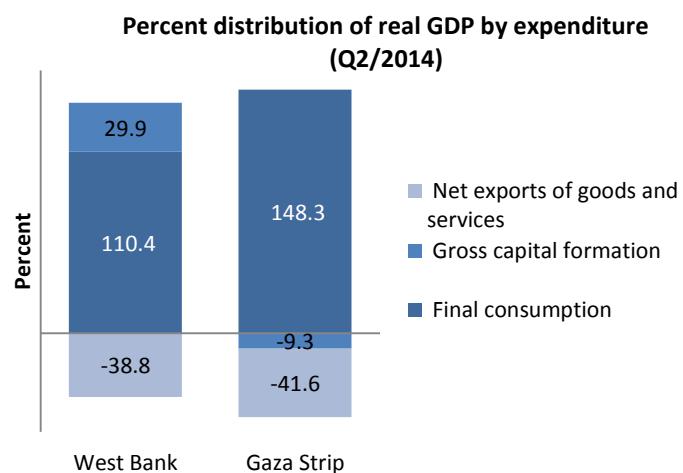
In the case of the Gaza Strip, public administration and defense represented the largest proportion of GDP in Q2/2014, accounting for 29.2% of the total, followed by services (26.6%) and wholesale and retail trade (14.0%). The construction sector, which accounted for 18.3% of Gazan GDP in Q2/2013, saw its share reduced to 5.3% by Q2/2014.

Final consumption in the West Bank represented 110.4% of GDP in Q2/2014, and 75.6% of it was in the form of household final consumption while 21.8% of the total was government final consumption. Gross capital formation in the West Bank grew by almost 10% between Q2/2013 and Q2/2014, and was equivalent to 29.9% of GDP in Q2/2014. Ninety-two percent of it was gross fixed capital formation. The value of exports of goods and services from the West Bank grew between Q2/2013 and Q2/2014 while that of imports decreased. Still, the West Bank trade deficit represented 38.8% of GDP in the quarter.

In the Gaza Strip, final consumption in Q2/2014 was equivalent to 148.3% of GDP, 64.8% of it household final consumption and 30.5% of it government final consumption. Gross capital formation was negative during the quarter, representing -9.3% of GDP, due to reductions in inventories. Gross fixed capital formation has been on the decline since Q2/2013, shrinking by 76.4% in the year to Q2/2014. Between the second quarters of 2013 and 2014 the value of exports of goods and services from the Gaza Strip was almost unchanged, while there was a large increase in imports,



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resulting in a trade deficit equivalent to 41.6% of GDP in Q2/2014.

The industrial production index (IPI) increased to 112.79 by June 2014 (base year is 2011). Activity in manufacturing (with a share of 80.56% in the IPI) increased in April and May but decreased in June. Activity in the water and electricity supply sector (with a share of 14.85% in the IPI) decreased in April and June but increased in May. Activity in the mining and quarrying sector (with a share of 4.59% in the IPI) increased in April and June but decreased in May.

The business cycle index reflected improvements in the West Bank in April and particularly in June but it reflected a contraction in the West Bank in May. On the contrary, in the Gaza Strip the business cycle index reflected significant contractions in all three months.

Current account and trade

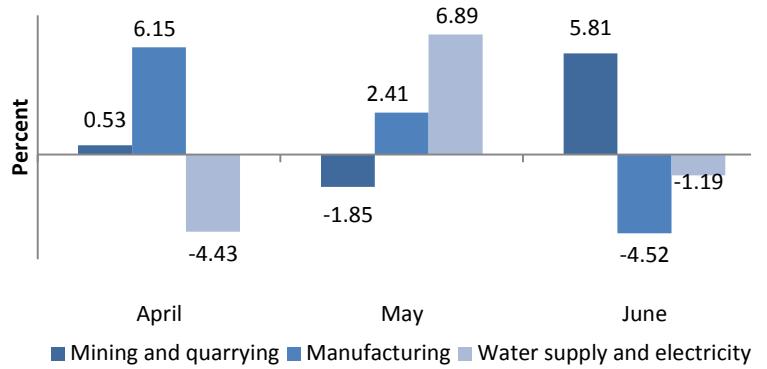
The current account deficit reached \$614.6 million, or 16.6% of GDP, in Q2/2014. The elevated goods trade deficit was the main reason behind the high current account deficit, although the services trade account also showed a negative balance. The income and transfer payment accounts both recorded a surplus in the quarter.

Exports continued to be mainly destined to Israel. Although most imports also came from Israel, there was a reduction in this share over the quarter.

Industrial production index (Q2/2014)

	April	May	June
Index	108.62	108.76	112.79

Change in industrial activity by sector (%, Q2/2014)



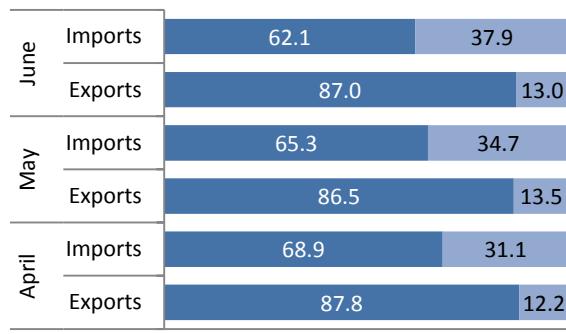
Business Cycle Index (Q2/2014)

	April	May	June
West Bank	2.68	-3.37	16.30
Gaza Strip	-9.41	-12.13	-8.88

Current account (Q2/2014)

Goods trade balance (million \$)	-1,540.7
Services trade balance (million \$)	-88.1
Income balance (million \$)	401.9
Net transfer payments (million \$)	612.3
Current account balance (million \$)	-614.6

Registered trade in goods to and from Israel and other countries (Q2/2014)



■ Israel ■ Other countries

Goods exports from the Gaza Strip in Q2/2014 were very limited. Only 11 truckloads were exported in Q2/2014, compared to 16 truckloads in Q2/2013.

Europe was the destination for biscuits (Italy), furniture (Ukraine) and chili pepper. Herbs were exported to the United States.

Exports from the Gaza Strip, by type (Q2/2014)

	April	May	June
Biscuits (tons)	--	9	--
Basil (kg)	--	--	180
Chive (kg)	690	920	460
Green mint (kg)	540	720	360
Chili pepper (tons)	--	1	--
Furniture (tons)	28	--	--
Total trucks	4	5	2

The private sector

The total area licensed for new construction in the West Bank in Q2/2014 was 9.8% higher than in Q2/2013. In the Gaza Strip, following the downward trend of previous quarters, it was 79.8% lower.

There was a 15.8% increase in the total number of new company registrations in the West Bank in Q2/2014 compared to the same period a year earlier, but in the Gaza Strip the number was reduced from 108 in Q2/2013 to only 80 in Q2/2014.

The proportion of owners/managers of active industrial enterprises in the West Bank who perceived improvements in terms of the enterprise's performance in general in Q2/2014 compared to Q1/2014 was 27.1%. The proportion that perceived improvements in the ease of obtaining raw materials and inputs or of transporting finished goods to market was much lower. Expectations for improvements in these categories in Q3/2014 followed a similar pattern.

Private sector indicators (Q2/2014)

	West Bank	Gaza Strip
Area licensed for new construction (sq. meters)	1,142,569	169,860
New company registrations	367	80

Proportion of owners/managers of the active industrial enterprises who experienced improvements in previous quarter (%, Q2/2014)

	West Bank	Gaza Strip
Enterprise's performance in general	27.1	--
Obtaining needed raw materials and inputs	12.5	--
Transporting finished goods to market	13.1	--

Proportion of owners/managers of the active industrial enterprises who expect improvements in coming quarter (%, Q2/2014)

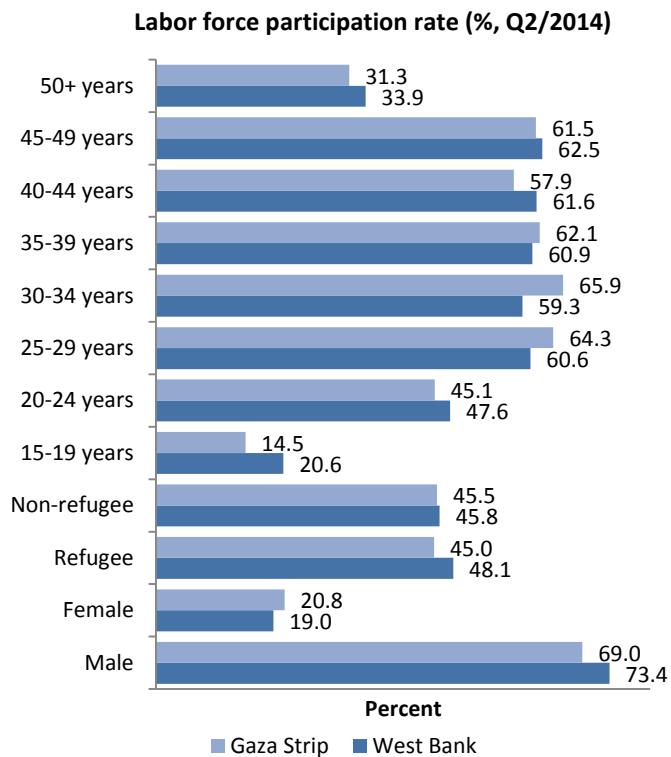
	West Bank	Gaza Strip
Enterprise's performance in general	24.0	--
Obtaining needed raw materials and inputs	12.2	--
Transporting finished goods to market	13.7	--

The labor market

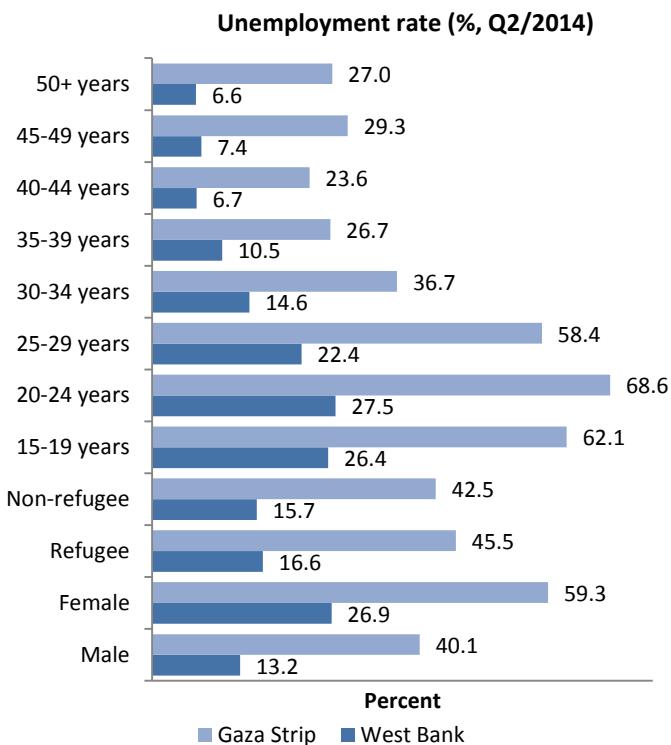
The labor force in Q2/2014 was 46.0% of those aged 15 and above, that is, 1.254 million persons. The labor force participation rate was 46.4% in the West Bank and 45.2% in the Gaza Strip. Participation in the labor force was much higher for men than for women in both regions. The labor force participation was relatively low for the youth, particularly those aged between 15 and 19 years of age (14.5% and 20.6% in the Gaza Strip and West Bank, respectively).

The unemployment rate was 26.2% in Q2/2014, the same as in Q1/2014 but considerably higher than 20.6% in Q2/2013. Unemployment affected 16.0% of the labor force in the West Bank, compared to 18.2% in Q1/2014 and 16.8% in Q2/2013. In the Gaza Strip, on the other hand, 44.5% of the labor force was unemployed in Q2/2014, reflecting a rise of 3.7 percentage points compared to Q1/2014 and of 16.6 percentage points compared to Q2/2013. When discouraged workers are added ('relaxed definition'), unemployment rises by about three percentage points in the West Bank and two percentage points in the Gaza Strip.

Women were more affected by unemployment than men in both regions, and despite their low labor force participation rate, almost six out of ten economically active women in the Gaza Strip were unemployed in Q2/2014. Refugees in both regions had a higher unemployment rate than non-refugees. Age was also correlated to unemployment, with the youth experiencing the highest rates. A total of 68.6% of 20-to-24-year-olds in the Gaza Strip, for example, were jobless –the highest rate of any age group in either region.



	West Bank	Gaza Strip
Narrow definition	16.0	44.5
Relaxed definition	19.1	46.4



The average period of unemployment in Q2/2014 compared to Q1/2014 was shorter for both men and women in the West Bank and the Gaza Strip. The average period of unemployment was considerably longer for women than for men in both regions, and it was longer in the Gaza Strip than in the West Bank for both sexes, with unemployed women in the Gaza Strip experiencing the longest average period of unemployment (23.1 months).

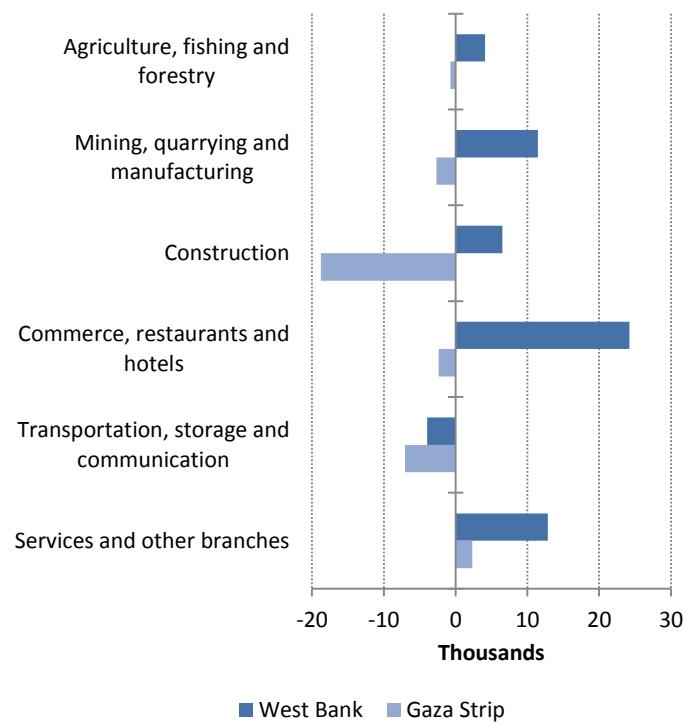
The number of persons employed in the West Bank increased between Q2/2013 and Q2/2014 by approximately 55,200 persons, but it decreased in the Gaza Strip by 29,200. In the West Bank employment increased in all sectors except transportation, storage and communication. In the Gaza Strip, on the other hand, employment decreased in all sectors except services and other branches.

There was a significant disparity in average daily net wages between the West Bank and the Gaza Strip in Q2/2014 – NIS90.7 vs. NIS61.1. Average daily net wages were higher for men than for women in the West Bank, but the situation was reversed in the Gaza Strip. The public sector offered considerably higher average daily wages than the private sector in both regions, although average wages in Israel and Israeli settlements in the West Bank remained the highest at NIS184.3 per day.

Average duration of unemployment (months, Q2/2014)

	West Bank	Gaza Strip
Male	4.6	16.2
Female	7.3	23.1

Change in number of employed persons by economic activity (thousands, year-on-year, Q2/2014)



Note: Those employed in Israel and Israeli settlements in the West Bank are excluded.

Average daily wage (NIS, Q2/2014)

	West Bank	Gaza Strip
Male	93.4	59.1
Female	80.0	72.9
Private sector	82.5	38.8
Public sector	105.8	80.3
Israel and settlements		184.3

Note: Data by sex and sector exclude those employed in Israel and Israeli settlements in the West Bank.

Consumer prices

Average prices, as measured through the Consumer Price Index (CPI), fell in Q2/2014 compared to Q1/2013 in the Gaza Strip, East Jerusalem and the rest of the West Bank. Compared to Q2/2013 however, average prices increased in all regions, mainly in East Jerusalem and the Gaza Strip.

The banking sector

Bank credit in Q2/2014 increased from Q1/2014 by 4.6% to \$4,902.5 million. The proportion of credit in the form of loans was 73.0%. This was followed by overdrafts (26.7% of the total), while leasing remained at less than one percent of bank credit in the quarter.

In terms of bank deposits, the main source in Q2/2014 continued to be the private sector with 71.8% of the total.

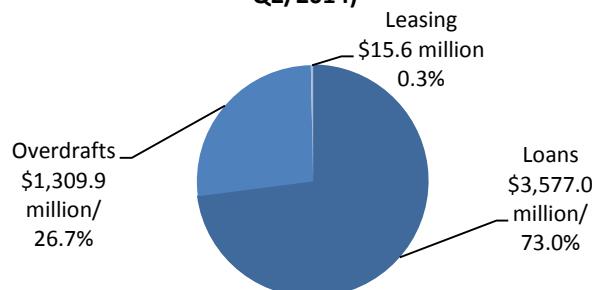
These figures resulted in a loan-to-deposit ratio of 55.9% in Q2/2014, up slightly from 55.3% in Q1/2014.

Change in CPI (%, Q2/2014)

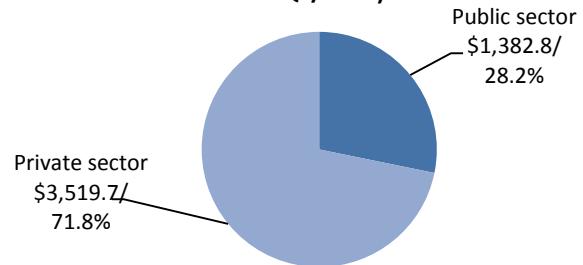
	East Jerusalem	Rest of West Bank	Gaza Strip
Quarter-on-quarter	-1.1	-1.0	-2.0
Year-on-year	3.4	0.9	2.5

Note: Comparisons are based on prices as the end of quarter.

Distribution of bank credit by type (million \$/%, Q2/2014)



Distribution of bank deposits by sector (million \$/%, Q2/2014)

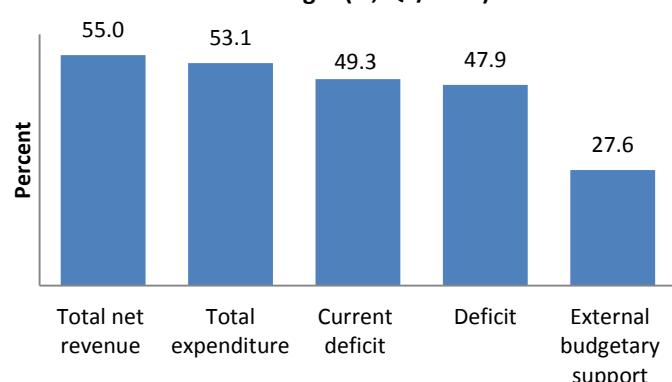


Note: Data do not include deposits of the PMA and commercial banks.

Fiscal operations

By the end of Q2/2014, government total net revenue was 55.0% of the NIS9,311 million in the 2014 budget, as clearance and gross domestic revenue were above target, although tax refunds were also higher than budgeted. Total expenditure was 53.1% of the NIS13,916 million in the budget for the year. The wage bill represented slightly less than half of expenditures and was on target, but by the end of June 2014 net lending had already reached approximately 85% of the amount budgeted for the year. The current deficit and the overall deficit were

Fiscal indicators: actual as a proportion of annual budget (%, Q2/2014)



Note: Data are for fiscal operations on a commitment basis. The information is up-to-date as of 19 October 2014.

less than forecast, at 49.3% and 47.9% of the annual projected amount, respectively. External budgetary support and development financing by the end of the quarter reached only 27.6% and 22.5% of the amount expected for the year, respectively.

Note: The data for the West Bank and Palestine in this report do not include occupied East Jerusalem, unless otherwise specified, due to the unavailability of data.

Sources of data:

- Economic activity: PCBS. Various periods. *Preliminary Estimates of Quarterly National Accounts and The Industrial Production Index*. PMA. Various periods. *Business Cycle Indicator*.
- Current account: PCBS and PMA. Various periods. *Palestinian Balance of Payments*.
- Trade: PCBS. Various periods. *The Palestinian Registered External Trade in Goods*. Palestinian Agricultural Relief Committees and Ministry of National Economy (for Gaza Strip export data).
- Private sector: Engineering Offices and Consulting Firms (for area licensed for new construction); Ministry of National Economy (for new company registrations); and PCBS. Various periods. *Survey of the Perceptions of the Owners / Managers of Active Industrial Enterprises Regarding the Economic Situation*.
- Labor market: PCBS. Various periods. *Labor Force Survey*.
- Consumer prices: PCBS. Various periods. *Monthly Produce Price Index*.
- The banking sector: PMA. Various periods. *Banking Data*.
- Fiscal operations: Ministry of Finance. Various periods. *Fiscal Operations – Revenues, Expenditures and Financing Sources*.

For further information or to be added to the mailing list please contact:

UNSCO West Bank: Astrid Marschatz marschatz@un.org

UNSCO Gaza Strip: Raed Raqeb raqeb@un.org

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